PERAC AUDIT REPORT

Woburn
Contributory Retirement System

JAN. 1, 2011 - DEC. 31, 2013

PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION
COMMONWEALTH OF MASSACHUSETTS

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PHILIP Y. BROWN, ESQ., *Chairman* JOSEPH E. CONNARTON, *Executive Director*

Auditor SUZANNE M. BUMP | KATE FITZPATRICK | JOHN B. LANGAN | JAMES M. MACHADO | ROBERT B. McCARTHY

April 3, 2015

The Public Employee Retirement Administration Commission has completed an examination of the Woburn Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2011 to December 31, 2013. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiners James Tivnan and Sam O'Brien who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,

Joseph E. Connarton

Joseph E. Connarton
Executive Director

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EXPLANATION OF FINDINGS AND RECOMMENDATIONS

1. Cash/Bank Reconciliation

A review of the bank reconciliation for the period ending December 31, 2013 revealed items that had been outstanding for more than six months. These outstanding items represent a limited number of regular benefit checks. A subsequent review of the bank reconciliation for the period ending March 31, 2014 showed a similar number of items remaining unresolved totaling $6,356.73. The staff stated these items had been discussed with the Treasurer. It is the responsibility of the Retirement Board staff to initiate adjustments that resolve these items. The reconciliation process is designed to identify items that result in timing differences between the bank account balance and the general ledger. Concern should be focused on items that are repeatedly disclosed during this process. Items that are cited in consecutive reconciliations present an increased audit risk due to the abandonment concept that indicates these repetitive items have not been appropriately issued, recorded and resolved during the ordinary operation of the system. The Retirement System has notified all retirees relative to the advantages of direct deposit as an alternative to payment by monthly check.

Recommendation: The City Treasurer shall be the custodian of the retirement system's funds according to G.L. c. 32, § 23(2)(a). As custodian of the retirement fund, the Treasurer is obligated to perform a monthly reconciliation of all retirement system cash accounts. This process is necessary to maintain proper internal control by segregating reconciliation duties. Any item that results in a timing difference between the bank and the system beyond a six month interval must be researched so that proper voiding and accounting for these items can be completed. Obligations to remit payment to appropriate sources must be satisfied. The recovery of all funds due to the retirement system must be fulfilled.

Board Response:

The Board has reviewed this finding with the City Treasurer. The steps recommended by PERAC have been taken to reconcile the old outstanding checks totaling $ 6,356,73. These items have been researched. Where appropriate, checks have been voided, corresponding adjustments made, and replacement checks issued.

2. Payroll Qualified For Retirement

The municipal payroll converted to a new vendor application during the audit period. Many of the established payroll procedures carried over to the new system. Prominent among these are the practice of issuing a separate payroll check primarily to public safety departments for duties that are traditionally excluded from compensation for retirement purposes. The payroll application is designed to maintain the distinction between compensation qualifying for retirement and non-qualified compensation within a single payroll distribution procedure. The current dual payroll routine allows for bypassing the normal system controls that provide for the Retirement Board to determine the types of compensation qualified for retirement. The various payroll clerks have considerable discretion in the allocation of compensation between the separate payroll cycles. This process minimizes the ability of the Retirement Board staff to monitor the distribution of compensation qualified and not qualified. It extends the determination of benefits for a retiree until completion of a special review of compensation for the specific period that applies to their benefit calculation. The current system is not fully utilizing the internal controls available within the payroll application.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS
(Continued)

Recommendation: A more effective process to monitor compliance with the current definition of compensation qualifying for retirement must be instituted. The current payroll application provides a framework for identifying exceptions that must be more efficiently utilized. The retirement system must be the ultimate reference for determining the compensation qualified for retirement purposes. The risk involved is that variances from the current policies will not provide timely notification to the Retirement Board staff. A complete evaluation of the various payroll types must be reassessed. We recommend the staff periodically inspect a complete payroll register from all municipal departments. This practice will assist in providing continuing oversight to confirm the accuracy of contributions. This will provide for a more legitimate basis for retirement estimates and benefits calculations.

<u>Board Response:</u>
The Board has reviewed this finding with the City Treasurer whose office is responsible for processing the City's payroll. The Treasurer and Board Staff will review all pay codes to insure compliance with the current definition of compensation qualifying for retirement. The Woburn Retirement staff will periodically evaluate payroll reports to reassess pay code compliance and meet with the city's payroll preparers to review their understanding of the Board's requirements for continued oversight.

<u>FINAL DETERMINATION</u>:
PERAC Audit staff will follow up in six (6) months to ensure appropriate actions have been taken regarding all findings.

STATEMENT OF LEDGER ASSETS AND LIABILITIES

	AS OF DECEMBER 31, 2013	2012	2011
Net Assets Available For Benefits:			
Cash	$2,631,557	$1,742,859	$4,463,191
Short Term Investments	119,752	119,275	118,480
Fixed Income Securities (at fair value)	10,112,723	11,165,080	10,637,369
Equities	22,170,187	18,972,123	18,145,495
Pooled Domestic Equity Funds	19,560,634	19,749,431	18,388,454
Pooled International Equity Funds	26,834,553	21,047,308	14,483,012
Pooled Domestic Fixed Income Funds	7,973,381	9,210,179	8,496,879
Pooled Global Fixed Income Funds	1,464,807	0	0
Pooled Alternative Investment Funds	14,011,411	12,047,423	10,747,324
Pooled Real Estate Funds	11,072,669	6,703,159	5,605,964
Hedge Funds	9,319,172	8,280,695	6,686,761
Interest Due and Accrued	88,150	99,270	96,563
Accounts Receivable	20,824	4,485,219	1,464,637
Accounts Payable	(104,245)	(4,912,771)	(183,160)
Total	$125,275,573	$108,709,248	$99,150,970
Fund Balances:			
Annuity Savings Fund	$30,381,295	$29,521,113	$27,706,751
Annuity Reserve Fund	9,141,584	8,613,019	8,881,360
Pension Fund	8,399,335	8,250,886	8,086,762
Military Service Fund	0	0	0
Expense Fund	0	0	0
Pension Reserve Fund	77,353,359	62,324,230	54,476,098
Total	$125,275,573	$108,709,248	$99,150,970

STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2011)	$27,228,333	$8,131,764	$7,358,812	$0	$0	$58,462,157	$101,181,065
Receipts	2,652,717	243,802	6,240,569	0	1,118,076	(702,486)	9,552,678
Interfund Transfers	(1,756,373)	1,765,564	3,274,383	0	0	(3,283,573)	0
Disbursements	(417,925)	(1,259,770)	(8,787,002)	0	(1,118,076)	0	(11,582,774)
Ending Balance (2011)	27,706,751	8,881,360	8,086,762	0	0	54,476,098	99,150,970
Receipts	2,679,611	263,536	5,483,141	0	1,094,200	11,794,309	21,314,797
Interfund Transfers	(849,063)	849,063	3,946,177	0	0	(3,946,177)	0
Disbursements	(16,186)	(1,380,940)	(9,265,194)	0	(1,094,200)	0	(11,756,519)
Ending Balance (2012)	29,521,113	8,613,019	8,250,886	0	0	62,324,230	108,709,248
Receipts	2,966,520	270,676	5,636,948	0	1,287,352	19,280,247	29,441,743
Interfund Transfers	(1,895,370)	1,896,488	4,250,000	0	0	(4,251,118)	0
Disbursements	(210,967)	(1,638,600)	(9,738,500)	0	(1,287,352)	0	(12,875,418)
Ending Balance (2013)	$30,381,295	$9,141,584	$8,399,335	$0	$0	$77,353,359	$125,275,573

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31, 2013	2012	2011
Annuity Savings Fund:			
Members Deductions	$2,720,198	$2,597,281	$2,563,165
Transfers from Other Systems	5,932	0	16,017
Member Make Up Payments and Re-deposits	58,932	24,361	15,189
Member Payments from Rollovers	152,695	30,536	3,218
Investment Income Credited to Member Accounts	28,764	27,434	55,129
Sub Total	2,966,520	2,679,611	2,652,717
Annuity Reserve Fund:			
Recovery of Annuity from Reinstatement	0	0	0
Investment Income Credited to the Annuity Reserve Fund	270,676	263,536	243,802
Sub Total	270,676	263,536	243,802
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems	123,320	182,189	91,155
Received from Commonwealth for COLA and Survivor Benefits	174,809	211,632	1,231,510
Pension Fund Appropriation	5,338,819	5,089,320	4,913,904
Settlement of Workers' Compensation Claims	0	0	4,000
Recovery of 91A Overearnings	0	0	0
Sub Total	5,636,948	5,483,141	6,240,569
Military Service Fund:			
Contribution Received from Municipality on Account of Military Service	0	0	0
Investment Income Credited to the Military Service Fund	0	0	0
Sub Total	0	0	0
Expense Fund:			
Investment Income Credited to the Expense Fund	1,287,352	1,094,200	1,118,076
Sub Total	1,287,352	1,094,200	1,118,076
Pension Reserve Fund:			
Federal Grant Reimbursement	83,584	6,972	12,937
Interest Not Refunded	0	0	4,368
Miscellaneous Income	0	10	252
Excess Investment Income (Loss)	19,196,663	11,787,327	(720,043)
Sub Total	19,280,247	11,794,309	(702,486)
Total Receipts, Net	$29,441,743	$21,314,797	$9,552,678

STATEMENT OF DISBURSEMENTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2013	2012	2011
Annuity Savings Fund:			
Refunds to Members	$58,211	$12,573	$356,401
Transfers to Other Systems	152,756	3,613	61,524
Sub Total	210,967	16,186	417,925
Annuity Reserve Fund:			
Annuities Paid	1,475,292	1,380,940	1,259,770
Option B Refunds	163,308	0	0
Sub Total	1,638,600	1,380,940	1,259,770
Pension Fund:			
Pensions Paid:			
Regular Pension Payments	6,759,716	6,488,565	6,311,638
Survivorship Payments	889,770	671,364	288,484
Ordinary Disability Payments	14,325	13,780	19,036
Accidental Disability Payments	993,820	995,427	1,040,634
Accidental Death Payments	630,834	700,422	694,901
Section 101 Benefits	26,639	34,213	41,856
3 (8) (c) Reimbursements to Other Systems	335,954	270,110	289,736
State Reimbursable COLA's Paid	87,443	91,312	100,717
Sub Total	9,738,500	9,265,194	8,787,002
Expense Fund:			
Board Member Stipend	17,999	17,999	17,999
Salaries	262,840	253,869	247,619
Legal Expenses	8,771	0	9,092
Travel Expenses	5,901	12,250	6,191
Administrative Expenses	8,326	7,765	6,726
Professional Services	0	17,568	20,080
Actuarial Services	18,497	0	0
Accounting Services	17,588	0	0
Education and Training	3,510	6,320	3,240
Furniture and Equipment	2,707	8,810	0
Management Fees	709,825	546,331	609,034
Custodial Fees	122,319	115,172	83,165
Consultant Fees	70,000	70,000	78,421
Service Contracts	33,935	32,986	31,543
Fiduciary Insurance	5,134	5,129	4,967
Sub Total	1,287,352	1,094,200	1,118,076
Total Disbursements	$12,875,418	$11,756,519	$11,582,774

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31, 2013	2012	2011
Investment Income Received From:			
Cash	$0	$0	$1,286
Short Term Investments	179	759	972
Fixed Income	465,397	485,318	532,885
Equities	260,394	323,278	216,789
Pooled or Mutual Funds	2,935,088	1,695,877	1,463,928
Commission Recapture	3,028	0	0
Total Investment Income	3,664,087	2,505,232	2,215,861
Plus:			
Realized Gains	4,096,996	3,044,250	2,710,608
Unrealized Gains	20,398,980	16,046,486	12,278,626
Interest Due and Accrued - Current Year	88,150	99,270	96,563
Sub Total	24,584,125	19,190,006	15,085,797
Less:			
Paid Accrued Interest on Fixed Income Securities	(7,249)	(13,272)	(12,649)
Realized Loss	(321,180)	(1,174,325)	(1,418,816)
Unrealized Loss	(7,037,057)	(7,238,581)	(15,058,875)
Interest Due and Accrued - Prior Year	(99,270)	(96,563)	(114,355)
Sub Total	(7,464,757)	(8,522,742)	(16,604,694)
Net Investment Income	20,783,455	13,172,497	696,964
Income Required:			
Annuity Savings Fund	28,764	27,434	55,129
Annuity Reserve Fund	270,676	263,536	243,802
Military Service Fund	0	0	0
Expense Fund	1,287,352	1,094,200	1,118,076
Total Income Required	1,586,791	1,385,170	1,417,007
Net Investment Income	20,783,455	13,172,497	696,964
Less: Total Income Required	1,586,791	1,385,170	1,417,007
Excess Income (Loss) To The Pension Reserve Fund	$19,196,663	$11,787,327	($720,043)

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

	AS OF DECEMBER 31, 2013	
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	$2,631,557	2.1%
Short Term Investments	119,752	0.1%
Fixed Income Securities (at fair value)	10,112,723	8.1%
Equities	22,170,187	17.7%
Pooled Domestic Equity Funds	19,560,634	15.6%
Pooled International Equity Funds	26,834,553	21.4%
Pooled Domestic Fixed Income Funds	7,973,381	6.4%
Pooled Global Fixed Income Funds	1,464,807	1.2%
Pooled Alternative Investment Funds	14,011,411	11.2%
Pooled Real Estate Funds	11,072,669	8.8%
Hedge Funds	9,319,172	7.4%
Grand Total	$125,270,844	100.0%

For the year ending December 31, 2013, the rate of return for the investments of the Woburn Retirement System was 18.84%. For the five-year period ending December 31, 2013, the rate of return for the investments of the Woburn Retirement System averaged 13.69%. For the 29-year period ending December 31, 2013, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Woburn Retirement System was 9.72%.

The composite rate of return for all retirement systems for the year ending December 31, 2013 was 15.57%. For the five-year period ending December 31, 2013, the composite rate of return for the investments of all retirement systems averaged 12.13%. For the 29-year period ending December 31, 2013, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 9.49%.

SUPPLEMENTARY INVESTMENT REGULATIONS

March 12, 2012
19.01(7)(a)(6)
Notwithstanding the provisions of 840 CMR 19.01(7)(a)(6), the Woburn Retirement Board may retain qualified investment managers to invest funds of the Woburn Retirement System in alternative investments where the range of fees that are considered to be tolerable include fees that are based upon a percentage of committed capital, provided that such fees are paid by all investors.

June 6, 2011
16.07(4), 17.04(3)(b), 21.01(6)
The Woburn Retirement Board is authorized to invest in RS Global Natural Resources Fund Class Y. To the extent that the Board is notified of any key staffing changes at the same time as other investors in this mutual fund, 840 CMR 16.07(4) will not apply to this investment. To the extent that manager considers the objectives of and the suitability for the Fund rather than for any single client, 840 CMR 17.04(3)(b) will not apply. To the extent that the Fund may invest in shares of lettered or restricted stock, 840 CMR 21.01(6) will not apply.

July 22, 2009
16.08
In accordance with Investment Guideline 99-3, the Woburn Retirement Board is authorized to invest in Charlesbank Equity Fund VII, L.P. The Board has been a satisfied investor in Charlesbank's two predecessor partnerships and has submitted the required updated regulatory documents.

July 16, 2009
19.01(8)
In order to take advantage of current opportunities in the market and to further diversify its portfolio, the Woburn Retirement Board is authorized to increase its allocation to alternative investments from 5.0% to 7.5% of total portfolio assets.

September 20, 2007
16.08
Notwithstanding the provisions of any statute or regulation to the contrary, specifically including the provisions of 840 CMR 21.01, the Woburn Retirement Board is hereby granted an exemption from restrictions on investment for the purposes of investing $3,500,000 of the Woburn Retirement System's assets in the Eaton Vance Loan Opportunities Fund, Ltd., a private placement investment.

July 18, 2007
17.03
Notwithstanding the provisions of the Public Employee Retirement Administration Commission regulations, the Woburn Retirement Board may invest funds of the Retirement System (the "System") in the fund known as the INVESCO US Buyout & Expansion Capital Partnership Fund III, LP (the "Fund"), and effective as of the date of the initial investment by the System of any of its assets in the Fund, while the assets of the System are so invested, the activities and investments of the Fund, and the underlying funds in which the Fund may invest, directly or indirectly, shall be deemed to satisfy the prohibited transaction rules set forth in 840 CMR 16.00 et seq. and 840 CMR 17.03 to the extent such activities satisfy the prohibited transaction rules set forth in Section 406 of

the U.S. Employee Retirement Income Security Act of 1974, as amended ("ERISA"), taking into account statutory exemptions under ERISA, and Prohibited Transaction Class Exemption 84-14, as amended, and other available class exemptions.

July 18, 2007
17.03
Notwithstanding the provisions of the Public Employee Retirement Administration Commission regulations, the Woburn Retirement Board may invest funds of the Retirement System (the "System") in the fund known as the INVESCO Non-US Partnership Fund III, LP (the "Fund"), and effective as of the date of the initial investment by the System of any of its assets in the Fund, while the assets of the System are so invested, the activities and investments of the Fund, and the underlying funds in which the Fund may invest, directly or indirectly, shall be deemed to satisfy the prohibited transaction rules set forth in 840 CMR 16.00 et seq. and 840 CMR 17.03 to the extent such activities satisfy the prohibited transaction rules set forth in Section 406 of the U.S. Employee Retirement Income Security Act of 1974, as amended ("ERISA"), taking into account statutory exemptions under ERISA, and Prohibited Transaction Class Exemption 84-14, as amended, and other available class exemptions.

July 18, 2007
17.03
Notwithstanding the provisions of the Public Employee Retirement Administration Commission regulations, the Woburn Retirement Board may invest funds of the Retirement System (the "System") in the fund known as the INVESCO Venture Partnership Fund III, LP (the "Fund"), and effective as of the date of the initial investment by the System of any of its assets in the Fund, while the assets of the System are so invested, the activities and investments of the Fund, and the underlying funds in which the Fund may invest, directly or indirectly, shall be deemed to satisfy the prohibited transaction rules set forth in 840 CMR 16.00 et seq. and 840 CMR 17.03 to the extent such activities satisfy the prohibited transaction rules set forth in Section 406 of the U.S. Employee Retirement Income Security Act of 1974, as amended ("ERISA"), taking into account statutory exemptions under ERISA, and Prohibited Transaction Class Exemption 84-14, as amended, and other available class exemptions.

April 15, 2005
16.08
In accordance with PERAC Investment Guideline 99-3, the Woburn Retirement Board is authorized to invest in Charlesbank Equity Fund VI, L.P., managed by Charlesbank Capital Partners. The System has been a satisfied investor in Charlesbank Equity Fund V and has submitted the required regulatory documents.

May, 11 2001
1. Exemption of the Board and INVESCO from the second sentence of 840 CMR 17.04(1)(c) – This Regulation deals with the use of non-public information by managers and consultants. PERAC recognizes that, in making the investments contemplated by the INVESCO Funds delineated above, that sentence, which prohibits action until information is publicly disseminated, represents an undue

burden on the ability of the Partnerships to operate. Consequently, the Woburn Retirement Board request as it applies to 840 CMR 17.04(1)(c) is approved.

2. Exemption of the Board and INVESCO from 840 CMR 17.04(6), except as otherwise provided for in the Partnership Agreement and/or as disclosed in INVESCO's

Form ADV – This Regulation deals with the Priority of Transactions and an investment manager's obligation to prioritize board transactions and provide the board with the opportunity to act prior to the manager acting, if applicable. PERAC recognizes that this Regulation may impede the ability of partnerships such as INVESCO's to operate.

Upon receipt of a copy of the provisions of the Partnership Agreement and/or disclosures in the INVESCO Form ADV, the Commission will approve the Woburn request as it applies to 840 CMR 17.04(6).

3. Exemption of the Board and INVESCO from 840 CMR 19.01(7)(a)(6) with respect to the management fees and the General Partner's Carried Interest to be received by the manager or the General Partner pursuant to the (a) Subscription Agreement, (b) Agreement as defined in the side letter, and/or (c) Manager's Investment Advisory

Agreement with respect to the Board's commitments to the Partnerships – PERAC recognizes the fact that the market, at the present time, is such that fee limitations, as outlined in these Regulations, result in limiting the number of partnerships available to the retirement boards. Consequently, the Woburn Retirement Board request, as it applies to 840 CMR 19.01(7)(a)(6), is approved.

4. Exemption of the Board and INVESCO from 840 CMR 21.01(2), 21.01(3)(a), 21.01(4), and 21.01(5) to the extent as otherwise permitted under the applicable agreement.

These Regulations prohibit certain transactions as follows: 21.01(2) prohibits the sale of securities not owned by the system at the time of the sale (shortsales); 21.01(3)(a) permits the use of forward currency contracts in limited circumstances; 21.01(4) prohibits the use of call options; 21.01(5) prohibits the purchase of options other than as required to close out option positions. PERAC has received a letter dated August 22, 2000 from INVESCO that clarifies the possible use of options, futures, or other derivatives. In pertinent part, the letter states as follows:

"Although the above referenced funds do not expect to use options, futures, or other derivatives other than infrequently, if at all, futures and/or options would be used only for nonspeculative true hedging purposes. In general, we would anticipate their use, if at all, for among other reasons to protect downside risk on public securities of companies distributed to the funds by the underlying portfolio funds we invest in and where a commitment to a fund was made in a non US currency to limit currency risk of the funds."

SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

PERAC approves the exemption of the Board and INVESCO from 840 CMR 21.01(2), 21.01(3)(a), 21.01(4), and 21.01(5) for the limited purpose of protecting downside risk on public securities of companies distributed to the funds by underlying portfolio funds and to limit currency risk of the funds where a commitment to a fund was made in a non US currency.

Please be advised that this Supplemental Regulation as it exempts the Woburn Retirement Board from PERAC Regulations, only does so in relation to the INVESCO Funds that are the subject of the Supplementary Regulation. In all other circumstances, these Regulations apply to the Woburn Retirement Board.

January 10, 2000
19.01(6)
Notwithstanding the provisions of the Public Employee Retirement Administration Commission regulations, the Woburn Retirement Board may invest funds of the Woburn Retirement System (the "System") with a real estate investment fund, as contemplated by 840 19.01(4)-(6), known as Realty Associates Fund V Corporation ("the Fund"), and while the funds of the System are so invested the assets of the System shall be deemed to include, for purposes of applying the rules set forth in 840 CMR 16.00 et. seq. and 17.00 et. seq., the System's interest in the Fund but not any of the underlying assets of the Fund; provided that, at all times, the Fund qualifies as a "real estate operating company" or "venture capital operating company" within the meaning of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and the regulations promulgated thereunder, or the assets of the Fund otherwise would not be treated as subject to ERISA.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Woburn Retirement System member unit employees deemed eligible by the retirement board, including the City of Woburn and Woburn Housing Authority as well as the Woburn Contributory Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

ADMINISTRATION

There are 105 contributory retirement systems for public employees in Massachusetts. Each system is governed by a retirement board and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements and a uniform accounting and funds structure for all systems.

PARTICIPATION

Participation is mandatory for all full-time employees. Eligibility with respect to part-time, provisional, temporary, seasonal or intermittent employment is governed by regulations promulgated by the retirement board, and approved by PERAC. Membership is optional for certain elected officials.

There are 4 classes of membership in the retirement system, but one of these classes, Group 3, is made up exclusively of the State Police. The other 3 classes are as follows:

Group 1:

General employees, including clerical, administrative, technical and all other employees not otherwise classified.

Group 2:

Certain specified hazardous duty positions.

Group 4:

Police officers, firefighters, and other specified hazardous positions.

NOTES TO FINANCIAL STATEMENTS (Continued)

MEMBER CONTRIBUTIONS

Member contributions vary depending on the most recent date of membership:

Prior to 1975:	5% of regular compensation
1975 - 1983:	7% of regular compensation
1984 to 6/30/96:	8% of regular compensation
7/1/96 to present:	9% of regular compensation
1979 to present:	an additional 2% of regular compensation in excess of $30,000.

In addition, members of Group 1 who join the system on or after April 2, 2012 will have their withholding rate reduced to 6% after achieving 30 years of creditable service.

RATE OF INTEREST

Interest on regular deductions made after January 1, 1984 is a rate established by PERAC in consultation with the Commissioner of Banks. The rate is obtained from the average rates paid on individual savings accounts by a representative sample of at least 10 financial institutions.

RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire at age 65. There is no mandatory retirement age for employees in Group 1.

SUPERANNUATION RETIREMENT

A person who became a member before April 2, 2012 is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- completion of 20 years of service, or

- attainment of age 55 if hired prior to 1978, or if classified in Group 4, or

- attainment of age 55 with 10 years of service, if hired after 1978, and if classified in Group 1 or 2

A person who became a member on or after April 2, 2012 is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- attainment of age 60 with 10 years of service if classified in Group 1, or

- attainment of age 55 with 10 years of service if classified in Group 2, or

- attainment of age 55 if classified in Group 4.

AMOUNT OF BENEFIT

A member's annual allowance is determined by multiplying average salary by a benefit rate related to the member's age and job classification at retirement, and the resulting product by his creditable service. The amount determined by the benefit formula cannot exceed 80% of the member's highest three year (or five year as discussed below) average salary. For veterans as defined in G.L. c. 32, s. 1, there is an additional benefit of $15 per year for each year of creditable service, up to a maximum of $300.

For employees who become members after January 1, 2011, regular compensation is limited to 64% of the federal limit found in 26 U.S.C. 401(a)(17). In addition, regular compensation will be limited to prohibit "spiking" of a member's salary to increase the retirement benefit.

- For persons who became members prior to April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last 3 years (whether or not consecutive) preceding retirement.

- For persons who became members on or after April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 5 consecutive years that produce the highest average, or, if greater, during the last 5 years (whether or not consecutive) preceding retirement.

- The Benefit Rate varies with the member's retirement age. For persons who became members prior to April 2, 2012 the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.

- For persons who became members on or after April 2, 2012 and retire with less than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 57. A .15% reduction is applied for each year of age under the maximum age for the member's group.

- For persons who became members on or after April 2, 2012 and retire with more than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 55. A .125% reduction is applied for each year of age under the maximum age for the member's group.

DEFERRED VESTED BENEFIT

A participant who has attained the requisite years of creditable service can elect to defer his or her retirement until a later date. Certain public safety employees cannot defer beyond age 65. All participants must begin to receive a retirement allowance or withdraw their accumulated deductions no later than April 15 of the calendar year following the year they reach age 70½.

WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. The interest rate for employees who first become members on or after January 1, 1984 who voluntarily withdraw their contributions with less than 10 years of service will be 3%. Interest payable on all other withdrawals will be set at regular interest.

DISABILITY RETIREMENT

The Massachusetts Retirement Plan provides 2 types of disability retirement benefits:

ORDINARY DISABILITY

Eligibility: Non-veterans who become totally and permanently disabled by reason of a non-job related condition with at least 10 years of creditable service (or 15 years creditable service in systems in which the local option contained in G.L. c. 32, s.6(1) has not been adopted).

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job related condition prior to reaching "maximum age". "Maximum age" applies only to those employees classified in Group 4 who are subject to mandatory retirement.

Retirement Allowance: For persons who became members prior to April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member's final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled.

For persons in Group 1 who became members on or after April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 60. If the member is a veteran, the benefit is 50% of the member's final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 60, he or she will receive not less than the superannuation allowance to which he or she would have been entitled had they retired for superannuation.

For persons in Group 2 and Group 4 who became members on or after April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member's final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she would have been entitled had they retired for superannuation.

ACCIDENTAL DISABILITY

Eligibility: Applies to members who become permanently and totally unable to perform the essential duties of the position as a result of a personal injury sustained or hazard undergone while in the performance of duties. There are no minimum age or service requirements.

Retirement Allowance: 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of $797.64 per year (or $312.00 per year in systems in which the local option contained in G.L. c. 32, s. 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member's retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution. For systems that have adopted Chapter 157 of the Acts of 2005, veterans as defined in G.L. c. 32, s. 1 receive an additional benefit of $15 per year for each year of creditable service, up to a maximum of $300.

ACCIDENTAL DEATH

Eligibility: Applies to members who die as a result of a work-related injury or if the member was retired for accidental disability and the death was the natural and proximate result of the injury or hazard undergone on account of which such member was retired.

Allowance: An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of $797.64 per year, per child (or $312.00 per year in systems in which the local option contained in G.L. c. 32, s. 9(2)(d)(ii) has not been adopted), payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

The surviving spouse of a member of a police or fire department or any corrections officer who, under specific and limited circumstances detailed in the statute, suffers an accident and is killed or sustains injuries while in the performance of his duties that results in his death, may receive a pension equal to the maximum salary for the position held by the member upon his death. In addition, an eligible family member may receive a one-time payment of $100,000 from the State Retirement Board. This lump sum payment is also available to the family of a public prosecutor in certain, limited circumstances.

NOTES TO FINANCIAL STATEMENTS (Continued)

DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member's death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of $6,000. For Systems that accept the provisions of Section 28 of Chapter 131 of the Acts of 2010, the amount of this benefit is $9,000. For Systems that accept the provisions of Section 63 of Chapter 139 of the Acts of 2012, the amount of this benefit is $12,000.

DEATH IN ACTIVE SERVICE

Allowance: An immediate allowance equal to that which would have been payable had the member retired and selected Option C on the day before his or her death. For a member who became a member prior to April 2, 2012 whose death occurred prior to the member's superannuation retirement age, the age 55 benefit rate is used. For a member classified in Group 1 who became a member on or after April 2, 2012 whose death occurred prior to the member's superannuation retirement age, the age 60 benefit rate is used. If the member died after age 60, the actual age is used. For a member classified in Group 2 or Group 4, whose death occurred prior to the member's minimum superannuation retirement age, the benefit shall be calculated using an age 55 age factor. The minimum annual allowance payable to the surviving spouse of a member in service who dies with at least two years of creditable service is $3,000 unless the retirement system has accepted the local option increasing this minimum annual allowance to $6,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death

The surviving spouse of such a member in service receives an additional allowance equal to the sum of $1,440 per year for the first child and $1,080 per year for each additional child until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

COST OF LIVING

If a system has accepted Chapter 17 of the Acts of 1997, and the Retirement Board votes to pay a cost of living increase (COLA) for that year, the percentage is determined based on the increase in the Consumer Price Index used for indexing Social Security benefits, but cannot exceed 3.0%. Section 51 of Chapter 127 of the Acts of 1999, if accepted, allows boards to grant COLA increases greater than that determined by CPI but not to exceed 3.0%. Only a certain portion of a retiree's total allowance is subject to a COLA. The total COLA for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

Under the provisions of Chapter 32, Section 103(j) inserted by Section 19 of Chapter 188 of the Acts of 2010, systems may increase the maximum base on which the COLA is calculated in multiples of $1,000. For many years the COLA base was calculated based upon the first $12,000 of a retiree's allowance. Now the maximum base upon which the COLA is calculated varies from system to system. . Each increase in the base must be accepted by a majority vote of the Retirement Board and approved by the legislative body.

METHODS OF PAYMENT

A member may elect to receive his or her retirement allowance in one of 3 forms of payment.

Option A: Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.

Option B: A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided, however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.

Option C: A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who is has not remarried, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up" to Option A) based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" to Option A in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

ALLOCATION OF PENSION COSTS

If a member's total creditable service was partly earned by employment in more than one retirement system, the cost of the "pension portion" is allocated between the different systems pro rata based on the member's service within each retirement system. If a member received regular compensation concurrently from two or more systems on or after January 1, 2010, and was not vested in both systems as of January 1, 2010, such a pro-ration will not be undertaken. This is because such a person will receive a separate retirement allowance from each system.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Public Employee Retirement Administration Commission.

Cash accounts are considered to be funds on deposit with banks and are available upon demand.

Short Term Investments are highly liquid investments that will mature within twelve months from the date of acquisition.

Investments are reported at their fair value. Securities traded on recognized exchanges are valued at the most recent sales price at year end. If no sale was reported, the mean of the bid and asked price is used when available, or the most recent bid price. Mutual, commingled and pooled funds are valued based on the net asset or unit value at year end. Real estate and alternative investments are valued based on estimates provided by the managers of those respective investments. Purchases and sales of securities are reflected on the date the trade is initiated. Realized gain or loss is largely based on the difference between the cost or the value at the prior year end and the funds realized upon liquidation. Dividend income is generally recorded when received. Interest income is recorded as earned on an accrual basis. Income from alternative investments is recorded as reported by the managing partner. Appreciation or depreciation in the value of investments consists of the unrealized gains and losses reported as the difference between the previous period and the current value.

The system makes estimates and assumptions that affect the reported values of assets and liabilities and the reported amounts added and deducted during the reporting periods. The fair value of real estate and alternative investment holdings are generally estimated in the absence of reliable exchange values. The actual funds realized upon liquidation may differ from these estimates.

The provisions of Massachusetts General Laws Chapter 32, § 23 (2) generally govern the investment practices of the system. The Board retains an investment consultant to closely monitor the implementation and performance of their investment strategy and advise them of the progress toward full funding of the system. That strategy seeks to balance the exposure to common deposit and investment risks related to custody, credit concentrations, interest rate and foreign currency fluctuations.

Operating expenses include the ordinary and necessary cost of investment and professional services and the other miscellaneous administrative expenses of the system.

NOTES TO FINANCIAL STATEMENTS (Continued)

The Annuity Savings Fund is the fund in which members' contributions are deposited. Voluntary contributions, re-deposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Woburn Retirement System submitted the following supplementary membership regulations, which were approved by the Public Employee Retirement Administration Commission on:

October 29, 2010
Membership
A. Employees of all member units of the Woburn Retirement System who are regularly employed in a permanent position for a minimum of 20 hours per week and who earn a minimum of $5,000 per year must become members of the System.

B. Employees of all member units of the Woburn Retirement System who are provisional, seasonal, temporary or intermittent, and who are regularly employed in a position for a minimum of 20 hours per week for a period of six consecutive months, and who earn a minimum of $5,000 per year, must become members of the system at the conclusion of the six-month period. Such members shall be allowed to purchase prior non-membership service.

C. Employees of all member units of the Woburn Retirement System who are employed less than 20 hours per week are ineligible for membership.

D. Employees, elected and appointed officials of all member units of the Woburn Retirement System who earn less than $5,000 per year are ineligible for membership.

October 29, 2010
Creditable Service
A. Members of the Woburn Retirement System who earn less than $5,000 per year and who established membership prior to July 1, 2009 shall continue to be members of the system. The regular compensation of such member shall be subject to retirement withholdings, but such member shall not accrue creditable service after July 1, 2009, except that, such member who on said date was serving in an elected or appointed term of office or employment shall continue to be credited with service until the expiration of said term of office or employment, but not thereafter.

B. Members of the Woburn Retirement System shall be credited with one year of service for each year of employment of not less than 20 hours per week, or yearly proportion thereof. If the member's hours of employment fall below 20 hours per week, the member shall be credited with one-half year of creditable service, or yearly proportion thereof.

C. Creditable service may be allowed for any period of approved leave of absence without regular compensation that is not in excess of one month, upon petition to the Board by the member. Any portion of any period of continuous leave of absence of any member without regular compensation that is in excess of one month shall not be creditable service.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

October 29, 2010

Applicability

This regulation shall apply to creditable service calculated for member buybacks, membership transfers to other Massachusetts retirement systems, and to retirement benefit calculations for members of the Woburn Retirement System retiring on or after November 1, 2010.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five-person Board of Retirement consisting of the City Auditor who shall be a member ex-officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex-officio Member:	Gerald W. Surette, Chairman		
Appointed Member:	A. John Flaherty	Term Expires:	Until a successor is appointed
Elected Member:	Marilou E. Lundin	Term Expires:	11/08/2017
Elected Member:	Denis P. Devine	Term Expires:	12/31/2016
Appointed Member:	Michael J. Gorman	Term Expires:	12/31/2017

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board. The PERAC Actuary performs verification prior to payment, unless the system has obtained a waiver for superannuation calculations allowing them to bypass this requirement. All expenses incurred by the System must be approved by a majority vote of the Board. Payments shall be made only upon vouchers signed by two persons designated by the Board.

The retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts.
Amity Insurance provides coverage to a limit of $10,000,000 under a master MACRS sponsored policy, which is issued through Travelers Casualty & Surety Co. of America. This coverage includes a $50,000 deductible. A separate fidelity coverage pertaining to ERISA/Crime to a limit of $1,000,000 is issued through Travelers Casualty and Surety Company, with a deductible of $10,000.

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by the Buck Consultants as of January 1, 2012.

The actuarial liability for active members was	$82,398,319
The actuarial liability for retired and inactive members was	80,240,681
The total actuarial liability was	$162,639,000
System assets as of that date were	106,181,870
The unfunded actuarial liability was	$56,457,130
The ratio of system's assets to total actuarial liability was	65.3%
As of that date the total covered employee payroll was	$27,681,194

The normal cost for employees on that date was	8.4% of payroll
The normal cost for the employer (including expenses) was	4.0% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return:	8.25% per annum
Rate of Salary Increase:	3% for 2012-2014, 3.5% for 2015-2016 and 4% thereafter

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION
AS OF JANUARY 1, 2012

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2012	$106,181,870	$162,639,000	$56,457,130	65.3%	$27,681,194	204.0%
1/1/2010	$104,707,479	$154,299,627	$49,592,148	67.9%	$27,433,458	180.8%
1/1/2009	$110,478,130	$141,758,527	$31,280,397	77.9%	$24,431,654	128.0%
1/1/2007	$102,354,232	$132,433,233	$30,079,001	77.3%	$24,258,365	124.0%
1/1/2005	$87,818,592	$120,595,047	$32,776,455	72.8%	$22,623,505	144.9%

NOTE 6 - MEMBERSHIP EXHIBIT

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Retirement in Past Years										
Superannuation	14	6	12	14	15	13	15	15	10	23
Ordinary Disability	0	1	0	0	0	0	0	0	0	0
Accidental Disability	2	1	1	1	1	1	1	1	0	1
Total Retirements	16	8	13	15	16	14	16	16	10	24
Total Retirees, Beneficiaries and Survivors	418	428	409	412	408	406	407	413	410	417
Total Active Members	663	551	580	572	555	571	577	572	581	591
Pension Payments										
Superannuation	$4,362,183	$4,416,510	$4,507,771	$4,809,189	$5,157,529	$5,467,269	$5,763,156	$6,311,638	$6,488,565	$6,759,716
Survivor/Beneficiary Payments	444,297	521,475	519,740	498,666	487,567	497,268	580,185	288,484	671,364	889,770
Ordinary Disability	39,363	48,836	39,185	40,670	43,710	21,486	22,334	19,036	13,780	14,325
Accidental Disability	990,721	914,447	978,899	964,508	935,246	964,683	982,532	1,040,634	995,427	993,820
Other	826,722	768,710	923,868	938,427	1,015,150	987,146	1,036,123	1,127,210	1,096,058	1,080,870
Total Payments for Year	$6,663,286	$6,669,978	$6,969,463	$7,251,460	$7,639,202	$7,937,852	$8,384,330	$8,787,002	$9,265,194	$9,738,500

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